

Comments on ANGTS as an inhibitor to Soviet
natural gas expansion.



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Attachment

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MEMORANDUM

The allegation that the Yamal pipeline will place a strain on the availability of financial capital does not deserve serious comment. The suggestion that pushing the Alaskan natural gas system will place strains on the world's gas transportation resources and could, therefore, cause a delay in the Yamal project does.

Our experts on the gas transportation industry (pipeline, pipe-laying equipment, ball valves, compressors, etc.) assure me that none of the ingredients that are required to build pipelines are in critical short supply, and that -- unless there were an unprecedented simultaneous start-up of pipeline projects all over the world -- existing stocks and production capacities are sufficient to meet any reasonably expected combination of pipeline project needs.

-- The 4800 kilometer Yamal pipeline will require 3 1/4 million tons of 56 inch pipe. Mannesman alone easily has the capacity to meet that amount of high strength, low alloy steel pipe over a three year period. Beyond Mannesman, stocks in the industry are high and the capacity of pipe mills in West Germany, Italy and Japan is more than three million tons per year. A Canadian ANGTS pipeline could probably be built in two years using the half million ton per year capacity of Canadian mills using 48 inch pipe. Pipeline requirements in other world projects (e.g., Algeria, Nigeria, Norway, etc.) could probably be met with smaller (e.g., 32 inch diameter) pipe for which there is much capacity in industrial countries.

-- Pipelaying equipment, such as the Caterpillar pipelayers the Soviet Union recently obtained from the US, is amply available in other countries, particularly from Komatsu of Japan.

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- Ball valves and other specialized fittings are not in short supply -- their price has not risen in recent years, as have the prices of industrial equipment generally.
- The only possible critical item is in the compressor field. Here GE holds an exclusive patent on the rotor shaft and blades, the critical component of the compressor complex. GE has licensing agreements with Nuovo Pignone of Italy, Hitachi of Japan and a German/French consortium composed of AEG Kanis, Alsthom Atlantique and Creusot Loire. Each of these can produce all of the compressor sections on their own, with the exception of the rotor shaft and blades which must be obtained from GE in the US. (By the way, the turbine power plants for the compressors, both aerojet and industrial types, are produced in many countries). If the US were to withhold the GE technology -- which it could do by export control intervention -- it could seriously delay pipelaying projects such as Yamal. Our experts believe, however, that this would inevitably lead to a replication of the GE technology in the above-mentioned license enterprises. A two-year lag time would be required before the first rotor shafts and blades would roll off new production lines.

The long and short of it is that the assertion that by accelerating a number of other gas projects, we could push the Yamal project up against a supply constraint is not sustainable. Yamal is, in any event, at the head of the procurement line: contracts for the 48 compressor stations have already been let and Mannesman's 56 inch pipe capacity is fully dedicated to that project. Any future projects would have to cue up behind it.

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